



Arnold Schwarzenegger
Governor

August 20, 2010
22M:393:mem:9129:9130

Mr. Elliott Robinson, Director
Monterey County Department of Employment and Social Services
1000 South Main Street, Suite 209A
Salinas, CA 93901

Dear Mr. Robinson:

WORKFORCE INVESTMENT ACT
FISCAL AND PROCUREMENT REVIEW
FINAL MONITORING REPORT
PROGRAM YEAR 2008-09

This is to inform you of the results of our review for Program Year (PY) 2008-09 of the Monterey County Department of Social and Employment Services' (DSES) Workforce Investment Act (WIA) grant financial management and procurement systems. This review was conducted by Ms. Molly Maloney from June 22, 2009 through June 26, 2009. For the fiscal portion of the review, we focused on the following areas: fiscal policies and procedures, accounting system, reporting, program income, expenditures, internal control, allowable costs, cash management, cost allocation, indirect costs, cost/resource sharing, fiscal monitoring of subrecipients, single audit and audit resolution policies and procedures for its subrecipients, and written internal management procedures. For the procurement portion of the review, we examined procurement policies and procedures, methods of procurement, procurement competition and selection of service providers, cost and price analyses, contract terms and agreements, and property management.

Our review was conducted under the authority of Section 667.410(b)(1), (2) & (3) of Title 20 of the Code of Federal Regulations (20 CFR). The purpose of this review was to determine the level of compliance by DSES with applicable federal and state laws, regulations, policies, and directives related to the WIA grant regarding financial management and procurement for PY 2008-09.

We collected the information for this report through interviews with representatives of DSES, a review of applicable policies and procedures, and a review of documentation retained by DSES for a sample of expenditures and procurements for PY 2008-09.

We received your response to our draft report on March 11, 2010, and reviewed your comments and documentation before finalizing this report. Because your response adequately addressed findings one, two and three cited in the draft report, no further action is required at this time. However, these issues will remain open until we verify the implementation of your stated corrective action plan during a future onsite review. Until then, these findings are assigned Corrective Action Tracking System (CATS) numbers 90264, 90265 and 90266.

BACKGROUND

The DSES was awarded WIA funds to administer a comprehensive workforce investment system by way of streamlining services through the One-Stop delivery system. For PY 2008-09, DSES was allocated: \$2,155,719 to serve 1,205 adult participants; \$2,217,746 to serve 331 youth participants; and \$2,157,297 to serve 950 dislocated worker participants.

For the quarter ending March 2009, DSES reported the following expenditures and enrollments for its WIA programs: \$1,425,976 to serve 89 adult participants; \$1,662,438 to serve 142 youth participants; and \$1,585,388 to serve 32 dislocated worker participants.

FISCAL REVIEW RESULTS

While we concluded that, overall, DSES is meeting applicable WIA requirements concerning financial management, we noted instances of noncompliance in the areas of expenditure reports and excess cash. The findings that we identified in these areas, our recommendations, and DSES's proposed resolution of the findings are specified below.

FINDING 1

Requirement: 29 CFR Section 97.20(a)(2) states, in part, that fiscal control and accounting procedures of subgrantees must be sufficient to permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions.

20 CFR Section 97.20(b)(1) states, in part, that accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.

29 CFR Subpart C, Section 97.20(b)(6) states, in part, that accounting records must be supported by such source

documentation as cancelled checks, paid bills, payroll, time and attendance records, contract and subgrant award documents, etc.

20 CFR Section 667.300(b)(1) states, in part, that a State may impose different forms or formats, shorter due dates, and more frequent reporting requirements on subrecipients.

Observation:

We reviewed DSES's March 2009 dislocated worker and youth quarterly reports and found that DSES was unable to adequately trace internal records to the amounts reported in the Job Training Automation (JTA) system. The DSES staff identified a \$3,883 difference in total expenditures between the internal documents and the JTA reports for the youth quarterly report but was unable to explain the difference.

The internal documents DSES kept to support the March 2009 dislocated worker quarterly report demonstrated an intention to move the balance of the dislocated worker money to the adult program, but did not support the March 2009 dislocated worker JTA report. The total expenditures reported to JTA for the dislocated worker grant was \$973,391.26. The DSES internal documentation reported total expenditures for the same grant as \$69,850.26.

Recommendation:

We recommended that DSES provide the Compliance Review Office (CRO) with a corrective action plan (CAP), including a timeline, to ensure that, in the future, DSES maintains adequate documentation to trace internal documents to its JTA quarterly reports.

DSES Response:

The DSES stated that in the period since the initial on-site monitoring conducted by CRO in June 2009, DSES has had an opportunity to locate and review additional internal documentation and determine that the initial expenditure reporting discrepancy involving Youth funds resulted from previously unreported accruals. Consequently, all accruals have been posted and applicable State reports have been updated and reconciled. The DSES provided CRO the youth program accrual documentation.

Regarding Dislocated Worker expenditure reporting, DSES concedes that the intended transfer of Dislocated Worker funds to the Adult program was premature. In the future, the intent to transfer funds will be noted, but State approval will occur before actual transfer. The DSES provided documents showing a

transfer of \$500,000 Dislocated Worker funds to the Adult program.

State Conclusion: The DSES's stated corrective action should be sufficient to resolve this issue and no further corrective action is required. However, we cannot close this issue until we verify, during a future onsite visit, DSES's successful implementation of its stated corrective action. Until then, this issue remains open and has been assigned CATS number 90264.

FINDING 2

Requirement: 29 CFR Section 97.20(a)(2) states, in part, that fiscal control and accounting procedures of subgrantees must be sufficient to permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of restrictions and prohibitions.

29 CFR Subpart C, Section 97.20(b)(6) states, in part, that accounting records must be supported by such source documentation as cancelled checks, paid bills, payroll, time and attendance records, contract and subgrant award documents, etc.

29 CFR Subpart C, Section 97.20(b)(7) states, in part, that procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used.

WIAD04-14 states, in part, that all subrecipients must monitor their cash draws to ensure their account does not reflect an "excess cash" balance. Excess cash is defined as any amount which has not been shown as disbursed within three or four working days.

Observation: We observed that one of four cash draw downs was not adequately documented. Specifically, we were unable to trace the funds requested to expenditures for a draw down dated February 3, 2009. Additionally, we observed that the amount requested resulted in excess cash. The DSES staff stated that the cash draw down, in the amount of \$1,260,000, was deliberately \$1,016,696 more than immediately needed because of a concern that California's larger economic crisis could lead to a freeze on the WIA funds. The DSES had excess cash on hand

from February 6, 2009 through April 3, 2009, for a total of 56 calendar days.

Recommendation: We recommended that DSES provide CRO with a CAP, including a timeline, to ensure that cash drawn down reflects immediate need and that the amount requested does not result in excess cash.

DSES Response: The DSES stated that they concede an error in prematurely requesting an excess of funds in anticipation of a larger economic crisis. To prevent any future confusion and/or question in regard to appropriate WIA cash draw downs, DSES has implemented a specific Cash Management policy which comprehensively addresses the day-to-day operational funding needs of its WIA programs.

The DSES provided their Cash Management policy dated January 1, 2010.

State Conclusion: The DSES's stated corrective action should be sufficient to resolve this issue and no further corrective action is required. However, we cannot close this issue until we verify, during a future onsite visit, DSES's successful implementation of its stated corrective action. Until then, this issue remains open and has been assigned CATS number 90265.

PROCUREMENT REVIEW RESULTS

While we concluded that, overall, DSES is meeting applicable WIA requirements concerning procurement, we noted an instance of noncompliance in the area of equipment and supplies. The finding that we identified in this area, our recommendation, and DSES's proposed resolution of the finding is specified below.

FINDING 3

Requirement: 29 CFR Part 97 Section 97.3 states, in part, that equipment means tangible, nonexpendable, personal property having a useful life of more than one year and an acquisition cost of \$5,000 or more per unit. Additionally, supplies mean tangible personal property other than equipment.

29 CFR Part 97 Section 97.20(b)(3) states, in part, that effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets.

Grantees and subgrantees must adequately safeguard all such property and must assure that it is solely used for authorized purposes.

WIAD03-9 states, in part, that all property records must be maintained from date of acquisition, through final disposition and that subrecipients must retain those records for a period of three years from the date of their last expenditure report submitted to the Workforce Investment Division.

The DSES's Procurement Office Procedures and Guidelines states, in part, that property records should be maintained and a physical property inventory must be taken and reconciled with the property records at least once every two years. Additionally, the Procedures and Guidelines state that DSES should implement measures to control small and attractive assets in order to minimize identified risk, periodically perform a follow up risk assessment to determine if the additional control implemented is effective in managing the identified risks.

Observation:

The DSES does not have a system in place to effectively control and account for supplies such as desktop computers and fax machines. We selected ten pieces of equipment/supplies to physically verify the location, safeguards, and use of the equipment/supplies. Four items, including two printers, a flat panel monitor, and a portable copier, could not be located. Subsequent to the review, DSES provided a surplus transfer record to account for the missing items.

Recommendation:

We recommended that DSES provide CRO with a CAP, including a timeline, to ensure that all supplies are effectively controlled and that the disposition of equipment is accurately recorded and records consistently maintained.

DSES Response:

The DSES stated that additional training has been provided to staff involved in the procurement and inventory of equipment and supplies. Also, a new inventory has been conducted to allow for additional comparison and to ensure a full accounting of all equipment/supplies. Finally, DSES stated that their Finance Manager will perform an additional review/audit of all equipment/supplies annually.

The DSES provided an inventory list dated March 1, 2010.

August 20, 2010

State Conclusion: Based on DSES's response, we cannot resolve this issue at this time. The DSES did not provide a CAP to ensure that all supplies are effectively controlled and that the disposition of equipment is accurately recorded and records consistently maintained. We recommend that DSES provide the requested CAP. Until then, this issue remains open and has been assigned CATS number 90266.

We provide you up to 20 working days after receipt of this report to submit to the Compliance Review Office your response to this report. Because we faxed a copy of this report to your office on the date indicated above, we request your response no later than September 20, 2010. Please submit your response to the following address:

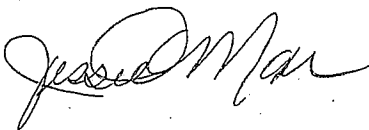
Compliance Monitoring Section
Compliance Review Office
722 Capitol Mall, MIC 22M
P.O. Box 826880
Sacramento, CA 94280-0001

In addition to mailing your response, you may also FAX it to the Compliance Monitoring Section at (916) 654-6096.

Because the methodology for our monitoring review included sample testing, this report is not a comprehensive assessment of all of the areas included in our review. It is DSES's responsibility to ensure that its systems, programs, and related activities comply with the WIA grant program, Federal and State regulations, and applicable State directives. Therefore, any deficiencies identified in subsequent reviews, such as an audit, would remain DSES's responsibility.

Please extend our appreciation to your staff for their cooperation and assistance during our review. If you have any questions regarding this report or the review that was conducted, please contact Ms. Mechelle Hayes at (916) 654-1292.

Sincerely,



JESSIE MAR, Chief
Compliance Monitoring Section
Compliance Review Office

cc: Jose Luis Marquez, MIC 50
Dathan O. Moore, MIC 50
Doug Orlando, MIC 50
Daniel Patterson, MIC 45